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In Downtown Los Angeles, a Potential Anchor for Offices

By NOAH SMITH NOV. 3, 2015



Work on the Wilshire Grand Center, an estimated \$1.2 billion mixed-use project in Los Angeles that will provide the city with its first new tower-based office space in decades. Gary Leonard/Wilshire Grand Project

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LOS ANGELES — [Wilshire Grand Center](#), an estimated \$1.2 billion mixed-use project in downtown [Los Angeles](#), promises many things upon its 2017 completion date.

At 1,100 feet, it will be the tallest building west of the Mississippi, with technology features like those to protect against earthquakes. Most notably, the center will provide this city with its first new tower-based office space in about 25 years.

Yet, there is one potential feature of the project, unstated in any brochure, that looms large in the minds of downtown's many champions: Wilshire Grand could catalyze more growth and diverse interest in the office market, long the troubled sector of real estate in downtown's revitalization efforts.

The office space vacancy rate in downtown Los Angeles was 18.4 percent in the third quarter, according to a report from Cushman & Wakefield. This puts it above the national office vacancy rate, which is about 16 percent, according to data from Reis, a commercial real estate research firm.



At 1,100 feet, the Wilshire Grand Center will be the tallest building west of the Mississippi. Gary Leonard/Wilshire Grand Project

Despite the sizable amount of available office space, the Downtown Center Business Improvement District said about 1.06 million square feet of office space was under construction.

With relatively high vacancy rates, and even more inventory under construction, rents might be expected to be stable or even decreasing, as tenants could theoretically leverage the abundance of choice. Since 2013, however, asking rents for Class A space in downtown Los Angeles have risen 14.2 percent, according to JLL, a real estate services firm.

Widespread faith in the fundamentals of the real estate market, and prospects of downtown in general, suggest one possible reason for this situation.

“We have an explosion in residential, in amenities, and in general feeling about downtown,” said Petra Durmin, [Southwest](#) and Denver regional research director at Cushman & Wakefield, which is handling the leasing of office space and retail at Wilshire Grand Center. “All these are moving us towards what we are undergoing right now, an urban renaissance.”

The standard narrative surrounding downtown's recent development success is rooted in two events, both of which occurred in 1999. That year, the Staples Center opened, bringing fans of three professional sports teams downtown, and the city's adaptive reuse ordinance was approved, which enabled developers to convert old and underused spaces into residential units.

Carol E. Schatz, one of the leaders in pushing for the adaptive reuse policy, and the continued development of downtown through her role as head of the Central City Association of Los Angeles as well as the Downtown Center Business Improvement District, sees the office market as the next logical step in this process.

“A great city can't be defined by a beach, two theme parks and a sign,” she said. “In this phase, now, it is retail and the next phase is office.”

Ms. Schatz, like many others in the real estate industry, pointed to the year's continued market strength across all real estate sectors, as well as certain intangible aspects.

“The more vibrant downtown becomes, the more it will attract other office users,” she said. “People like to be in an area that is exploding, there's a dynamism you feel, it's palpable.”

Another factor in helping draw companies downtown, many public policy and urban planning experts say, is improving transportation links, like the Metro's Expo line, which will soon link the west side of Los Angeles to downtown.

“It is still difficult to drive in, which leaves spatial dispersion. This will change as Metro gets better and it makes more sense to concentrate things in one space,” said Rodney Ramcharan, an associate professor of public policy at the University of Southern California.

The Metro Expo Line Phase 2, stretching west to Santa Monica, is due to be completed next year and is projected to have 64,000 boarding passengers by 2030, although an estimate for Phase 1 to Culver City, 23,000 daily passengers by 2020, has already been exceeded by 6,000 passengers, according to a Metro spokesman.

Professor Ramcharan also noted the demographic shifts — including the marked population increases over the last 15 years, with younger people moving downtown — as another important factor.

Foreign investment has also played a role.

“There has been a lot of interest from global areas and other urban areas, where they've seen this movie before, from Korea, China, Canada and Germany,” said Lewis C. Horne, president of the Greater Los Angeles-Orange County Region for CBRE Inc., a global commercial real estate services company.

Some say, though, that the rental market has been buoyed by a handful of property owners.

“Over 60 percent of downtown properties are owned by the top seven landlords for downtown,” Ms. Durnin of Cushman & Wakefield said.

“They have the ability to control rental rates,” said Tony Morales, executive managing director at JLL. He noted that above-market rates are often imposed on renewing tenants, since landlords know they often do not want to move.

Bert Dezzutti, the executive vice president at [Brookfield Property Partners](#) and a member of the advisory board at the USC Lusk Center for Real Estate, disputes these claims.

There is nothing that is unnatural about what is happening, he said, adding that the changes were a response to the higher values associated with relocating to the city.

Wilshire Grand Center figures to provide even more incentive. Owned by Korean Air, a subsidiary of the Hanjin Group, it was originally conceived as a two-building complex consisting of significantly more office space, but the plan was altered.

“It would have been very risky,” said Christopher C. Martin, chief executive of AC Martin, the architecture firm behind the project. “The downtown L.A. office market is coming back, but it's slow.” He also noted that a two-phase project was more complicated.

The new tower will also house an InterContinental hotel and is expected to include retail and restaurant space, in addition to about 400,000 square feet of office space, according to Mr. Martin.

Mr. Martin said that the space was designed with an eye toward attracting a variety of companies to downtown. Mostly professional services have flocked to the area.

The floor spaces will be wide open, ceiling heights will be 10 feet and there will be air intake on every floor, which will increase oxygen levels. In terms of unfinished elements, a few floors will offer a Los Angeles-specific design feature: exposed buckling-restrained braces, which essentially act as large braces during an earthquake.

Though there have not been any landmark media or technology deals downtown yet, a steady trickle of firms has moved in, such as the transportation technology company Hyperloop.

John C. Cushman III, co-chairman of the board at Cushman & Wakefield, said there had been some “very interested and serious” tenants looking at the office space as well as the retail and restaurant space in Wilshire Grand.

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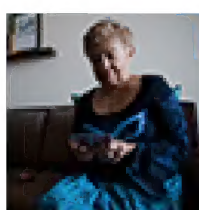
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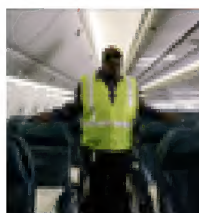
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